SINOPHARM GROUP CO. LTD.*
國 藥 控 股 股 份 有 限 公 司

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of Sinopharm Group Co. Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") prepared under the Hong Kong Financial Reporting Standard ("HKFRS") for the year ended 31 December 2010 (the "Reporting Period"), together with the comparative figures for the corresponding period of last year as follows.

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your continuing support to the Group.

2010 was a year full of opportunities and challenges for the Group. It was also a prosperous year for the development of the Group after the securitization of its capital. During the period, the Group over performed the strategic targets set out in the "Eleventh Five-Year Plan", which in turn laid a solid foundation for the "Twelfth Five-Year Plan".

Last year, the Group faced industrial trends such as the decrease in prices of medicine, the acceleration of the industry integration, and the increased demand in essential drugs. However, with the joint effort of all employees, the Group grasped the unprecedented opportunities brought by the promotion of the medical reform in China, fulfilled the demands in society, formulated a clear development strategy and took measures to boost up both its organic and external growth. As a result, the Group maintained a steady and sustainable growth, and its operating income and the total profit recorded significant increase.

Operating results of the company continued to grow

In accordance with the HKFRS, sales of the Group in 2010 amounted to RMB69,234 million, representing a growth of 31.45% as compared with the corresponding period in 2009. Profit attributable to the shareholders was RMB1,209 million, representing a growth of 25.03% as compared with the corresponding period in 2009.

Dividends

Based on the Group's results and financial resources, and taking into consideration the need for the Group's future development, the Board proposed to distribute a dividend of RMB0.16 per share. Subject to the approval of the shareholders in the forthcoming annual general meeting, the dividend is expected to be distributed on 20 July 2011 to shareholders whose names appear on the register of members of the Company on 30 May 2011.

In 2010, total assets of the Group increased from RMB32,647 million in the corresponding period last year to RMB42,014 million and net assets increased from RMB14,023 million in the corresponding period last year to RMB14,719 million.

In 2010, capital expenditure of the Group for the year amounted to RMB2,700 million and was primarily used in developing and improving distribution channels, as well as building logistics centers.

In the past year, the global pharmaceutical market continued to grow steadily due to people's pursuit of life and health, and more importantly, a strong demands deriving from emerging markets. Regarding the relationship between the medical and healthcare segments and the national economy, the growth in medical and healthcare segments is no longer in "S" shape. There is an increasing demand and continuous growth in the medical and healthcare market.

The GDP of China had already surpassed Japan and became the second largest economy in the world in 2010. From 2003 to 2009, the compound annual growth rate ("CAGR") of the commercial pharmaceutical market in China reached 17.60%, which was much higher than the growth of the average GDP.

Driven by the continuous increase in national medical and healthcare expenditure, together with the government's further investment in the medical and healthcare sector, coupled with the effects of medical reform in China, the demand in the market is becoming strong and the industry has grown rapidly. As the rapid growth of the medical and healthcare industry in China was beyond the market's expectation, IMS continued to adjust the scale ranking of China among global medical and healthcare industries. It is expected that the scale of medical and healthcare market in China will become the second largest in the world by 2020.

Nevertheless, comparing with developed western countries, pharmaceutical industry in China is still in its developing stage. In terms of the pharmaceutical distribution market, the market share of the top three enterprises in commercial pharmaceutical market in US accounted for almost 90% of the total share in US, while the market share of the top three enterprises in the commercial pharmaceutical market in Japan accounted for nearly 70% of the total share in Japan. However, the market share of the top three enterprises in the pharmaceutical market in China merely accounted for approximately 21% of the total share in China.

In order to safeguard the health interests of citizens and promote a rapid growth of the medical and healthcare industry in China, the Chinese Government continued to strengthen the medical reform and reinforced implementation of all corresponding auxiliary measures. The developmental plan of pharmaceutical distribution industry was specifically outlined in the "Twelfth Five-Year Plan" which shall be implemented soon.

"The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015 (Consultation Draft)" pointed out the direction of the future development of domestic pharmaceutical distribution industry. In this regard, mergers and acquisitions of pharmaceutical distribution enterprises as well as development of pharmaceutical retail chains are encouraged. National leading pharmaceutical enterprises and regional large-scale pharmaceutical enterprises will be established. Modern logistics will be greatly developed. Information management will be promoted in a comprehensive manner, and a standardized and centralized pharmaceutical operational model will be achieved.

Policies contained in the above-mentioned outline are reflective of the trend of mergers and acquisitions and resources integration in pharmaceutical distribution industry. As a leader in the pharmaceutical distribution industry, benefited from policies and capital allocation, the Group will continue to invest in the establishment of urban network layout and logistics system in provincial capital cities and prefectures-level cities. The Group has also established strategic partnerships with various local governments in China and has taken advantages of its resources in expanding the scope and base of its customers and in further improving its service capacity.

Leveraging on its extensive network and governmental resources, the Group strived to establish an innovative 4-in-1 pharmaceutical distribution network featuring national essential drugs, strategic reserve drugs, vaccines and special drugs such as poisons, anesthetic drugs, psychotropic drugs and radioactive drugs, so as to meet different needs. By doing so, the Group has not only formulated a business model with stable and sustainable growth, but also consolidated its leading position as the largest pharmaceutical enterprise in China, continued to enlarge the gap between the Group and the second largest enterprise in terms of market share.

Besides the fast expansion of its distribution network and the rapid increase in the number of newly franchised enterprises, the Group paid more attentions to strengthen the corporation's operational standard through various ways, including optimizing the structure of internal control. In light of its fast expansion, the Group continuously improved its internal control system, strengthened information management, and carried out supervisions to the implementation of policies on a regular basis. In 2010, the Group has established corporate risk management and control system focusing on four aspects, namely improved internal control, clear strategy, efficient organization and fine operation. These help the newly franchised enterprises realize a fast integration and a full utilization of its synergy.

Prospects

2011 is the first year of the "Twelfth Five-year Plan". Thanks to the continuous growth of China's macro economy, further implementation of new medical reform and the increasing demands in pharmaceutical market due to the expansion of medical insurances, the domestic pharmaceutical industry has entered into a "Golden Era". The employees of the Group are going to seize this unprecedented opportunity to expand the Group's success in the "Eleventh Five-year" period together with all shareholders. The Group aims to accelerate mergers and acquisitions, achieve national coverage in the pharmaceutical distribution market, and enhance control over the ultimate market dominated by hospitals, pharmacies and other third parties. The Group will also continue business innovation and optimization of resources allocation, as well as enhance its ability in risk management and control. The Group is confident that it would continue to be a benchmark domestic pharmaceutical distribution enterprise, and becoming the first enterprise to have a sales revenue reaching RMB100 billion. The Group also has full strength and confidence in becoming an internationally competitive medicine and healthcare service provider, as well as the most reliable supply chain service provider in China, supporting the internationalization of domestic pharmaceutical enterprises.

I would like to express my gratitude to all shareholders, directors, members of senior management of the Company and all my fellow colleagues for their efforts during the past year. The Group will definitely have an even more glorious future.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2010** ***RMB'000***	*2009* *RMB'000* (Restated)
ASSETS			
Non-current assets			
Land use rights		**665,499**	584,084
Investment properties		**149,545**	164,001
Property, plant and equipment		**3,330,750**	1,794,052
Intangible assets		**1,591,588**	422,666
Investments in associates		**486,412**	313,668
Available-for-sale financial assets		**55,576**	56,334
Deferred income tax assets		**234,084**	193,410
Other non-current assets		**637,726**	11,544
		7,151,180	3,539,759
Current assets			
Inventories		**7,530,376**	5,301,152
Trade receivables	4	**17,751,877**	11,979,788
Prepayments and other receivables		**1,373,261**	1,022,197
Available-for-sale financial assets		**990**	548
Short-term loan receivable		**—**	2,905,584
Restricted bank deposits		**732,098**	329,700
Cash and cash equivalents		**7,474,698**	7,567,839
		34,863,300	29,106,808
Total assets		**42,014,480**	32,646,567
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**2,264,568**	2,264,568
Reserves		**9,446,570**	9,602,311
		11,711,138	11,866,879
Non-controlling interests		**3,007,942**	2,155,638
Total equity		**14,719,080**	14,022,517

		As at 31 December	
		2010	*2009*
	Note	***RMB'000***	*RMB'000*
			(Restated)
LIABILITIES			
Non-current liabilities			
Bank borrowings		**90,900**	50,977
Deferred income tax liabilities		**265,651**	110,090
Post-employment benefit obligations		**368,712**	403,008
Other non-current liabilities		**816,061**	641,931
		1,541,324	1,206,006
Current liabilities			
Trade payables	5	**19,831,205**	13,703,430
Accruals and other payables		**2,332,509**	1,885,554
Dividends payable		**13,575**	35,288
Current income tax liabilities		**232,605**	126,007
Bank borrowings		**3,344,182**	1,667,765
		25,754,076	17,418,044
Total liabilities		**27,295,400**	18,624,050
Total equity and liabilities		**42,014,480**	32,646,567
Net current assets		**9,109,224**	11,688,764
Total assets less current liabilities		**16,260,404**	15,228,523

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
			(Restated)
Revenue	6	**69,233,669**	52,668,164
Cost of sales	9	**(63,397,799)**	(48,260,824)
Gross profit		**5,835,870**	4,407,340
Other income	7	**77,370**	54,482
Distribution and selling expenses	9	**(1,960,018)**	(1,404,129)
General and administrative expenses	9	**(1,544,407)**	(1,165,729)
Operating profit		**2,408,815**	1,891,964
Other gains — net	8	**171,381**	180,329
Finance income		**76,388**	25,889
Finance costs		**(348,640)**	(256,548)
Finance costs — net	11	**(272,252)**	(230,659)
Share of results of associates		**90,008**	67,772
Profit before income tax		**2,397,952**	1,909,406
Income tax expense	12	**(567,595)**	(465,314)
Profit for the year		**1,830,357**	1,444,092
Attributable to:			
Shareholders of the Company		**1,208,751**	967,165
Non-controlling interests		**621,606**	476,927
		1,830,357	1,444,092
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
— Basic and fully diluted	13	**0.53**	0.53
Dividends	14	**362,331**	627,296

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Attributable to shareholders of the Company *RMB'000*	Attributable to Non-controlling interests *RMB'000*	Total equity *RMB'000*
Year ended 31 December 2010				
Profit for the year		1,208,751	621,606	1,830,357
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
— gross		628	798	1,426
— tax		(175)	(222)	(397)
Currency translation differences		(1,199)	—	(1,199)
Other comprehensive income, net of tax		(746)	576	(170)
Total comprehensive income for the year		1,208,005	622,182	1,830,187
Year ended 31 December 2009 (Restated)				
Profit for the year		967,165	476,927	1,444,092
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
— gross		11,883	15,421	27,304
— tax		(3,004)	(3,822)	(6,826)
Other comprehensive income, net of tax		8,879	11,599	20,478
Total comprehensive income for the year		976,044	488,526	1,464,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities

The Company was incorporated in the People's Republic of China (the "PRC") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign invested shares ("H Shares"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 23 September 2009.

The address of the Company's registered office is 221 Fuzhou Road, Huangpu District, Shanghai, the PRC.

The Group is mainly engaged in: (1) distribution of medicines and pharmaceutical products to customers including hospitals, other distributors, retail drug stores and clinics, (2) operation of pharmaceutical chain stores, and (3) distribution of laboratory supplies, manufacture and distribution of chemical reagents, and production and sale of pharmaceutical products and distribution of medical device.

The ultimate holding company of the Company is China National Pharmaceutical Group Corporation ("CNPGC"), which was incorporated in the PRC.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 23 March 2011.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

During the year, the Group acquired the following subsidiaries and business from CNPGC: (1) 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. ("Xinjiang Pharmaceutical"); (2) 100% equity interest in Hebei Traditional & Herbal Medicines Co., Ltd ("Hebei Traditional & Herbal Medicine") and Guangdong Dong Fang New & Special Medicines Co. ("Guangdong Dong Fang"); (3) 51% equity interest in Hubei Yibao International Pharmaceutical Co., Ltd. ("Hubei Yibao"); (4) 52.61% equity interest in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd. (國藥控股深圳中藥有限公司); (5) the medicine distribution business of two subsidiaries of CNPGC. These transactions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated financial statements include the financial position, results and cash flows of above subsidiaries and business acquired under common control, as if the acquisitions had been completed prior to the beginning of the year. For the other companies acquired from (or disposed to) a third party during the year, they are included in (excluded from) the consolidated financial statements of the Group from the date of the relevant acquisition (disposal).

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The Group has applied HKFRS 3 (revised) to the acquisitions of Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd., Sinopharm Holding Ningxia Co., Ltd. and China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. in 2010. The Company remeasured the existing stake of above three entities before acquisition to fair value at the date of acquisition and recognised a gain of RMB29,341,000 in the income statement. Further details are described in Note 8.

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied HKAS 27 (revised) to the acquisitions of 1%, 1%, 36%, 35% and 50% equity interests in its subsidiaries — China National Pharmaceutical Group Guorui Medicine Co., Ltd(國藥集團國瑞藥業有限公司), Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司), Xinjiang Province New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限責任公司), Shanghai GuoDa Pharmacy Chain Store Co., Ltd.(上海國大藥房連鎖有限公司), Shanghai Guoda Dongsheng Drugstore Co., Ltd.(上海國大東盛大藥房有限公司), separately, in 2010. The effects of above transactions with non-controlling interests amounting to RMB144,949,000 were recorded in equity. The Group also has applied HKAS 27 (revised) to the disposal of 55% equity interests in Xinjiang Pharmaceutical Co., Ltd. (新疆製藥廠), a former subsidiary of the Group, in 2010. The Group remeasured the retained interest of Xinjiang Pharmaceutical Co., Ltd to fair value at the date of control lost and recognised a gain of RMB41,687,000 in the income statement (Note 8).

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarificaties that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

(iii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

  The Group is yet to assess HKFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will adopt the entire standard from 1 January 2011 except government-related entity exemption which had been early adopted from 1 January 2009. When the revised standard is applied, the Group and the Company will need to disclose any transactions between its subsidiaries and the subsidiaries of the entity which has significant influence over the Company. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

(iv) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and not relevant to the Group.

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

- HK (IFRIC) — Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

- Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) — Int 14). The amendments correct an unintended consequence of HK (IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) — Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

3 Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the executives at the general manager office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

(i) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to customers, including hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy operations — operation of medicine chain stores; and

(iii) Other business operations — distribution of laboratory supplies, manufacturing and distribution of chemical reagents, production and sale of pharmaceutical products and distribution of medical device.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax income liabilities and other liabilities that are incurred for financing rather than operating purpose.

Unallocated assets mainly represent deferred income tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

The segment information provided to the operating committee is as follows:

(i) For the Year ended 31 December 2010 and 2009

	Pharmaceutical distribution	**Retail pharmacy operations**	**Other business operations**	**Elimination**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2010					
Segment results					
External segment revenue	64,800,811	1,714,955	2,717,903	—	69,233,669
Inter-segment revenue	562,075	—	142,302	(704,377)	—
Revenue	65,362,886	1,714,955	2,860,205	(704,377)	69,233,669
Operating profit	2,131,194	41,462	237,612	(1,453)	2,408,815
Other gains	156,554	1,411	13,416	—	171,381
Share of results of associates	88,915	1,093	—	—	90,008
	2,376,663	43,966	251,028	(1,453)	2,670,204
Finance costs — net					(272,252)
Profit before income tax					2,397,952
Income tax expense					(567,595)
Profit for the year					1,830,357
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	42,978	(162)	(306)	—	42,510
(Write-back of)/provision for impairment of inventories	(3,294)	251	11	—	(3,032)
Amortisation of land use rights	10,345	—	3,244	—	13,589
Depreciation of property, plant and equipment	143,738	19,077	51,747	—	214,562
Depreciation of investment properties	—	—	16,365	—	16,365
Amortisation of intangible assets	32,803	295	22,901	—	55,999
Capital expenditures	2,395,866	129,619	174,043	—	2,699,528

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
Year ended 31 December 2009 (Restated)					
Segment results					
External segment revenue	49,291,835	1,386,290	1,990,039	—	52,668,164
Inter-segment revenue	260,987	—	97,058	(358,045)	—
Revenue	49,552,822	1,386,290	2,087,097	(358,045)	52,668,164
Operating profit	1,763,929	15,279	115,338	(2,582)	1,891,964
Other gains/(losses)	172,691	1,059	6,579	—	180,329
Share of results of associates	67,772	—	—	—	67,772
	2,004,392	16,338	121,917	(2,582)	2,140,065
Finance costs — net					(230,659)
Profit before income tax					1,909,406
Income tax expense					(465,314)
Profit for the year					1,444,092
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	18,529	330	219	—	19,078
Provision for impairment of inventories	11,404	63	3,757	—	15,224
Provision for impairment of available-for-sale financial assets	18,503	—	—	—	18,503
Amortisation of land use rights	9,148	—	2,834	—	11,982
Depreciation of property, plant and equipment	123,559	5,268	38,731	—	167,558
Depreciation of investment properties	—	—	19,476	—	19,476
Amortisation of intangible assets	39,211	96	10,560	—	49,867
Capital expenditures	**995,154**	**28,459**	**132,396**	**—**	**1,156,009**

(ii) As at 31 December 2010 and 2009

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
As at 31 December 2010					
Segment assets and liabilities					
Segment assets	37,920,786	946,633	3,367,206	(454,229)	41,780,396
Segment assets include:					
Investments in associates	481,806	—	4,606	—	486,412
Unallocated assets					234,084
Total assets					42,014,480
Segment liabilities	22,241,817	611,573	1,373,587	(632,310)	23,594,667
Unallocated liabilities					3,700,733
Total liabilities					27,295,400
As at 31 December 2009 (Restated)					
Segment assets and liabilities					
Segment assets	30,131,122	667,267	2,147,249	(492,481)	32,453,157
Segment assets include:					
Investments in associates	289,077	—	24,591	—	313,668
Unallocated assets					193,410
Total assets					32,646,567
Segment liabilities	15,537,621	464,019	1,111,413	(317,835)	16,795,218
Unallocated liabilities					1,828,832
Total liabilities					18,624,050

All of the Group's assets are located in the PRC.

4 Trade receivables

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Accounts receivable	**16,520,718**	11,319,836
Notes receivable	**1,511,315**	903,689
	18,032,033	12,223,525
Less: Provision for impairment	**(280,156)**	(243,737)
Trade receivables — net	**17,751,877**	11,979,788

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms ranging from 30 to 180 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Below 3 months	**14,597,296**	9,533,001
3 to 6 months	**2,945,861**	2,168,112
6 months to 1 year	**399,612**	457,327
1 to 2 years	**47,303**	30,607
Over 2 years	**41,961**	34,478
	18,032,033	12,223,525

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
3 to 6 months	**2,777,357**	2,022,354
6 months to 1 year	**355,305**	402,773
1 to 2 years	**19,846**	19,213
Over 2 years	**2,073**	2,447
	3,154,581	2,446,787

As of 31 December 2010, trade receivables of approximately RMB280,156,000 (31 December 2009: RMB243,737,000), were impaired, and had been fully provided for. These receivables mainly relate to wholesalers in unexpected difficult financial situations. The ageing of these receivables is as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
		(Restated)
3 to 6 months	**168,504**	145,758
6 months to 1 year	**44,307**	54,554
1 to 2 years	**27,457**	11,394
Over 2 years	**39,888**	32,031
	280,156	243,737

Movements of provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
At the beginning of year	**243,737**	229,545
Provision for impairment (Note 9)	**39,111**	30,521
Receivables written off as uncollectible	**(2,692)**	(16,329)
At the end of year	**280,156**	243,737

The creation and release of provision for impairment of trade and other receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB.

As at 31 December 2010, notes receivable of RMB110,276,000 (31 December 2009: RMB468,262,000) and accounts receivable of RMB615,446, 000 (31 December 2009: RMB296,914,000) were pledged as collaterals of the Group's bank borrowings.

As at 31 December 2010, outstanding accounts receivable of RMB3,283,765,000 (31 December 2009: RMB900,756,000) were derecognized under the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable was within one year. As at 31 December 2010, the collection of such accounts receivable on behalf of banks amounted to RMB277,264,000 (31 December 2009: RMB263,605,000) was recorded in other payables.

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

5 Trade payables

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Trade payables	**13,725,945**	9,647,621
Notes payable	**6,105,260**	4,055,809
	19,831,205	13,703,430

Purchases are made on credit terms ranging from 45 to 180 days.

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Below 3 months	**17,862,983**	11,677,197
3 to 6 months	**965,105**	526,166
6 months to 1 year	**569,968**	1,101,768
1 to 2 years	**174,166**	131,771
Over 2 years	**258,983**	266,528
	19,831,205	13,703,430

The Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
RMB	**19,211,979**	13,311,419
USD	**619,226**	392,011
	19,831,205	13,703,430

6 Revenue

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Sales of goods	**69,053,448**	52,572,532
Rental income	**53,347**	53,371
Franchise fees from medicine chain stores	**40,593**	11,189
Consulting income	**42,758**	14,965
Import agency income	**43,523**	16,107
	69,233,669	52,668,164

7 Other income

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Government grants (i)	**77,370**	54,105
Dividend income from available-for-sale financial assets	**—**	377
	77,370	54,482

Note:

(i) Government grants mainly represented subsidy income received from various government organisations as incentives to certain group companies.

8 Other gains — net

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Write-back of certain liabilities (i)	**47,949**	52,925
Gain on fair value re-measurement of retained interest in connection with disposal of controlling interest in a subsidiary (ii)	**41,687**	—
Gain on disposal of subsidiaries	**3,879**	—
Gain on disposal of available-for-sale financial assets	**38,356**	—
Gain on fair value re-measurement of existing stake in connection with acquisitions (iii)	**29,341**	—
Gain on disposal of property, plant and equipment	**24,124**	4,054
Donations	**(4,355)**	(6,086)
Foreign exchange loss — net	**(5,827)**	(3,817)
Loss on disposal of an associate	**(207)**	(3,858)
Gain on disposal of partial interests in two listed subsidiaries	**—**	101,548
Gain on disposal of partial interests in other subsidiaries	**—**	34,999
Others — net	**(3,566)**	564
	171,381	180,329

Notes:

(i) In 2010, the Group reviewed all the trade and other payables with aging over 3 years and wrote-back these unpayable long aging liabilities of RMB47,949,000.

(ii) In 2010, the Group's 100% equity interests in Xinjiang Pharmaceutical Co., Ltd., a former subsidiary of the Group, was diluted to 45% by an independent third party. The Group remeasured the retained interest in Xinjiang Pharmaceutical Co., Ltd. to fair value at the date of control lost and recognised a gain of RMB41,687,000.

(iii) In 2010, the Group acquired additional equity interests in certain entities, which were former associates and became the subsidiaries of the Group afterwards. The Group remeasured the existing interests of these entities before acquisition to fair value at the date of acquisition and recognised a gain of RMB29,341,000.

9 Expenses by nature

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Raw materials and trading merchandise consumed	**63,198,707**	47,916,923
Changes in inventories of finished goods and work in progress	**97,253**	190,025
Employee benefit expenses (Note 10)	**1,653,086**	1,288,888
Provision for impairment of trade receivables (Note 4)	**39,111**	30,521
Provision/(write-back of provision) for impairment of other receivables	**3,399**	(11,443)
Provision/(write-back of provision) for impairment of inventories	**(3,032)**	15,224
Provision for impairment of available-for-sale financial assets	**—**	18,503
Operating lease rentals in respect of leasehold land and buildings	**195,484**	167,705
Depreciation of property, plant and equipment	**214,562**	167,558
Depreciation of investment properties	**16,365**	19,476
Amortisation of intangible assets	**55,999**	49,867
Amortisation of land use rights	**13,589**	11,982
Auditors' remuneration	**12,987**	10,872
Advisory and consulting fees	**28,128**	18,750
Transportation expenses	**279,951**	283,453
Travel expenses	**117,406**	84,181
Promotion and advertising expenses	**489,859**	274,525
Utilities	**38,631**	31,317
Others	**450,739**	262,355
Total cost of sales, distribution and selling expenses and general and administrative expenses	**66,902,224**	50,830,682

10 Employee benefit expenses

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Salaries, wages, allowances and bonuses	**1,252,121**	959,214
Contributions to pension plans (i)	**133,187**	106,527
Post-employment benefits	**31,862**	45
Housing benefits (ii)	**56,555**	40,782
Other benefits (iii)	**179,361**	182,320
	1,653,086	1,288,888

Notes

(i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 7% to 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(ii) Housing benefits represent contribution to the government-supervised housing funds, in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

11 Finance income and costs

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Interest expense:		
— Borrowings	**88,135**	121,832
— Discount of notes receivable	**167,305**	76,675
— Discount of accounts receivable	**63,494**	29,824
Gross interest expense	**318,934**	228,331
Bank charges	**36,831**	31,284
Less: capitalised interest expense	**(7,125)**	(3,067)
Finance costs	**348,640**	256,548
Finance income:		
— Interest income on bank deposits	**(76,388)**	(25,889)
Finance costs — net	**272,252**	230,659

12 Taxation

(a) Income tax expense

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
PRC current income tax	**613,392**	472,454
Deferred income tax	**(45,797)**	(7,140)
	567,595	465,314

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Profit before income tax	**2,397,952**	1,909,406
Less: Share of results of associates	**(90,008)**	(67,772)
	2,307,944	1,841,634
Tax calculated at weighted average domestic tax rate applicable	**533,086**	442,830
Unrealised intra-group profit	**13,823**	5,228
Expenses not deductible for tax purposes	**14,975**	16,175
Tax losses for which no deferred income tax asset was recognised, net	**5,711**	1,303
Change of income tax rate	**—**	(222)
Income tax expense	**567,595**	465,314
Weighted average applicable domestic tax rate (i)	**24%**	24%

(i) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong.

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the publication of the Corporate Income Tax Law of the Peoples Republic of China (the "new CIT Law") on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009, 22% for 2010 and will be 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

(b) Business tax ("BT") and related taxes

Certain of the Group's revenues (including rental income, consulting income, franchise fees and other service fee income) are subject to BT at rates ranging from 3% to 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1% to 7% and 1% to 3% of the amount of BT payable.

(c) Value-added tax ("VAT") and related taxes

Certain of the Group's revenues (including sales of goods) are subject to output VAT generally calculated at 0%, 13% or 17% of the selling prices. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 3% of the net VAT payable.

13 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2010	2009 (Restated)
Profit attributable to shareholders of the Company (RMB'000)	**1,208,751**	967,165
Weighted average number of ordinary shares in issue ('000)	**2,264,568**	1,808,964
Basic earnings per share (RMB per share)	**0.53**	0.53

No diluted earnings per share is presented as there was no dilutive potential shares existed during the years.

14 Dividends

The directors recommend the payment of a final dividend of RMB0.16 per ordinary share, amounting to RMB362,330,956. Such dividend is to be approved by the shareholders of the Company at the upcoming Annual General Meeting. These financial statements have not reflected the payable of this dividend.

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Interim dividend declared	**—**	604,417
Proposed final dividend	**362,331**	22,879
	362,331	627,296

15 Business combinations

(a) Business combination under common control

In March 2009, CNPGC acquired 80% equity interests in Xinjiang Pharmaceutical from Xinjiang State-owned Assets Supervision and Administration Commission. In June 2010, the Group acquired the 80% equity interests in Xinjiang Pharmaceutical from CNPGC.

In May and June 2010, the Group acquired 100% equity interests in Guangdong Dong Fang and Hebei Traditional & Herbal Medicine from a subsidiary of CNPGC.

In June 2010, the Group acquired 51% equity interests in Hubei Yi Bao from a subsidiary of CNPGC.

In November 2010, the Group acquired an additional 52.61% equity interests in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd., a then 47.39% owned associate from CNPGC. After the acquisition, the Group holds 100% equity interests in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd., which has been reclassified from investment in associate to investment in subsidiaries.

In December 2010, the Group acquired the medicine distribution business from two subsidiaries of CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of above subsidiaries and business on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2009:

	The Group, excluding above subsidiaries and business acquired under common control	**Above subsidiaries and business acquired under common control**	**Adjustments**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in above subsidiaries and business acquired under common control	—	—	—	—
Other assets/(liabilities) — net	12,504,457	1,495,412	22,648	14,022,517
Net assets	12,504,457	1,495,412	22,648	14,022,517
Share capital	2,264,568	998,352	(998,352)	2,264,568
Share premium	8,131,102	—	—	8,131,102
Statutory reserves	92,768	4,445	(4,445)	92,768
Available-for-sale financial assets change	15,990	—	—	15,990
Capital reserves	(11,673)	183,935	827,465	999,727
Retained earnings	418,103	(6,843)	(48,536)	362,724
Non-controlling interests	1,593,599	315,523	246,516	2,155,638
	12,504,457	1,495,412	22,648	14,022,517

The consolidated balance sheet as at 31 December 2010:

	The Group, excluding above subsidiaries and business acquired under common control	**Above subsidiaries and business acquired under common control**	**Adjustments**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in above subsidiaries and business acquired under common control	1,365,096	—	(1,365,096)	—
Other assets/(liabilities) — net	13,295,998	1,412,347	10,735	14,719,080
Net assets	14,661,094	1,412,347	(1,354,361)	14,719,080
Share capital	2,264,568	1,073,352	(1,073,352)	2,264,568
Share premium	8,131,102	—	—	8,131,102
Statutory reserves	130,852	5,280	(5,280)	130,852
Available-for-sale financial assets change	16,443	—	—	16,443
Capital reserves	(11,673)	54,392	(254,794)	(212,075)
Retained earnings	1,344,954	170,653	(135,359)	1,380,248
Non-controlling interests	2,784,848	108,670	114,424	3,007,942
	14,661,094	1,412,347	(1,354,361)	14,719,080

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the business combination under common control to achieve consistency of accounting policies.

(b) ***Business combinations not under common control***

Other than the acquisition of above subsidiaries and business from CNPGC, which was accounted for under merger accounting, the Group acquired equity interests in certain entities, which became the subsidiaries of the Group afterwards, as follows:

Subsidiaries acquired	**Acquired interests %**
Sinopharm Holding Jiangxi Co., Ltd.	67%
Shenzhen Yanfeng Medicine Co., Ltd	51%
Shanghai Santa Medical & Science Co., Ltd	100%
Beijing Tianxingpuxin Bio-Med Co., Ltd	51%
Sinopharm Holding Jilin Co., Ltd	70%
Xiamen Guanghua Medical Science& Technology Co., Ltd.	70%
Sinopharm Holding Merro (Dalian) Co., Ltd.	70%
Sinopharm Holding Meizhou Co., Ltd.	100%
Nanjing Guosheng Chain Drugstore Co., Ltd.	60%
Shanghai HuYong Pharmaceutical Co,.LTD	100%
Sinopharm Group A-Think Pharmaceutcial Co., Ltd.	75%
Sinopharm Holding Nanjing Co., Ltd	100%
Dalian Guoda-Accord Meiluo Chain Drugstore Co., Ltd.	100%
Shandong Guoda Renhetang Pharmacy Chain Store Co., Ltd.	55%
Sinopharm Holding Jinan Co., Ltd	70%
Sinopharm Holding Linyi Co., Ltd	65%
Fujian Guoda Pharmacy Chain Store Co., Ltd	100%
Sinopharm Holding Anqing Co., Ltd	70%
Sinopharm Holding Zhoushan Co., Ltd	80%
Sinopharm Holding Huizhou Co., Ltd	100%
Wenzhou Biomedicin-Appliances Supplies Co., Ltd.	58%

The Group also acquired additional equity interests in certain entities, which became the subsidiaries of the Group afterwards, during the year, as follows:

In January 2010, the Group acquired an additional 21% equity interests in Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd. ("Liaoning Guoda Accord"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds 51 % equity interests in Liaoning Guoda Accord, which has been reclassified from investment in associate to investment in subsidiaries.

In April 2010, the Group acquired an additional 17.7% equity interests in Sinopharm Holding Ningxia Co., Ltd. ("Sinopharm Ningxia"), a then 49% owned associate, from an independent third party. After the acquisition, the Group holds 66.7% equity interests in Sinopharm Ningxia, which has been reclassified from investment in associate to investment in subsidiaries.

In May 2010, the Group acquired an additional 42% equity interests in China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. ("Shanghai Likang"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds 72% equity interests in Shanghai Likang, which has been reclassified from investment in associate to investment in subsidiaries.

The effect of the above acquisitions is summarised as follows:

	2010
	RMB'000
Purchase consideration	
— Cash paid	**1,201,257**
— Consideration payable	**61,968**
— Contingent consideration (Note (i))	**110,668**
Total purchase consideration	**1,373,893**
Fair value of previous stake at the dates of acquisitions	**60,592**
	1,434,485

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarised as follows:

	Fair values at acquisition date	Acquirees' carrying amounts at acquisition date
	RMB'000	*RMB'000*
Cash and cash equivalents	308,614	308,614
Property, plant and equipment	402,130	391,313
Intangible assets		
— sales network	592,978	—
— trademarks and patent	56,238	—
— software	15,752	15,752
Land use rights	17,844	12,170
Deferred income tax assets	2,573	2,573
Inventories	681,370	681,370
Other non-current assets	11,505	11,505
Trade and other receivables	2,539,480	2,539,480
Trade and other payables	(2,477,657)	(2,477,657)
Deferred income tax liabilities	(162,860)	—
Other non-current liabilites	(10,128)	(10,128)
Borrowings	(646,750)	(646,750)
Net assets	1,331,089	828,242
Non-controlling interests (Note (ii))	(442,062)	
Goodwill	545,458	
Net assets acquired	1,434,485	
Purchase consideration settled in cash	1,201,257	
Cash and cash equivalents in subsidiaries acquired	(308,614)	
Cash outflow on acquisition	892,643	

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and above subsidiaries acquired not under common control combination.

(i) Contingent consideration

Based on certain condition stipulated by the agreement, the contingent consideration agreement required the Group to pay the maximum undiscounted amount of RMB110,668,000.

- If the acquiree's actual net profit for the 12 months period after the acquisition date("actual net profit") achieve the maximum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration

- If the acquiree's actual net profit does not achieve the maximum profit target but achieve the minimum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration*
  (the actual net profit/the maximum profit target)

- If the actual net profit does not achieve the minimum profit target, the contingent consideration arrangement is nil.

  As the forecasted net profit for the 12 months period after the acquisition date of the above three entities are all above the maximum profit target, the fair value of the contingent consideration arrangement was estimated to be the maximum remain consideration. As at 31 December 2010, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interest

The Group has chosen to recognise non-controlling interest measured at the non-controlling interest in the acquiree's net assets excluding goodwill.

(iii) The revenue, net profit and cash flow of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2010 are summarised as follows:

	From acquisition date to 31 December 2010 ***RMB'000***
Revenue	4,463,797
Net profit	126,079
Cash inflows from operating activities	152,612
Net cash inflow	223,100

16 Events after the balance sheet date

Subsequent to 31 December 2010, the Company made the following significant acquisitions:

(a) In January 2011, the Company acquired a 51% equity interest in Sinopharm Holding Tianjing Bei Fang Co., Ltd. (國藥控股天津北方醫藥有限公司)from an independent third party.

(b) In January 2011, the Company acquired an 89% equity interest in Zhejiang Jinjun Pharmaceutical Co., Ltd. (浙江省縉雲縣醫藥有限公司) from an independent third party

(c) In January 2011, the Company acquired a 75% equity interest in Zhejiang Wenling Pharmaceutcial Co., Ltd. (浙江溫嶺醫藥藥材有限公司) from an independent third party.

(d) In January 2011, the Company acquired a 70% equity interest in Sinopharm Holding Wuxi Co., Ltd. (國藥控股無錫有限公司) from an independent third party.

(e) In January 2011, the Company acquired a 70% equity interest in Shanghai Peibaokang Corporate Management Co., Ltd. (上海培寶康企業管理有限公司) from an independent third party.

(f) In January 2011, the Company acquired a 55% equity interest in Sinopharm Holding Lingyun Biological (Shanghai) Co., Ltd. (國藥控股淩雲生物醫藥（上海）有限公司) from an independent third party.

(g) In January 2011, the Company acquired a 65% equity interest in Changzhou Yatai Wuzhou Pharmaceutcial Co., Ltd. (常州亞泰五洲醫藥有限公司) from an independent third party.

(h) In January 2011, the Company acquired a 100% equity interest in Foshan Nanhai Pharmaceutcial Co., Ltd. (佛山市南海醫藥集團有限公司) from an independent third party.

(i) In January 2011, the Company acquired a 100% equity interest in Sinopharm Holding Qindao Co., Ltd. (國藥控股青島有限公司) from an independent third party.

(j) In January 2011, the Company acquired a 70% equity interest in Sinopharm Holding Xinyu Co., Ltd. (國藥控股新餘有限公司) from an independent third party.

(k) In January 2011, the Company acquired a 70% equity interest in Sinopharm Holding Suzhou Boai Co., Ltd. (國藥控股蘇州博愛醫藥有限公司) from an independent third party.

(l) In January 2011, the Company acquired a 65% equity interest in Sinopharm Holding Heilongjiang Co., Ltd. (國藥控股黑龍江有限公司) from an independent third party.

The total considerations for the above acquisitions amounted to RMB958,233,800.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the past 40 years, the pharmaceutical market in China has maintained a steady growth, representing a booming opportunity for the industry brought by the rise of an emerging economy and initial investments of the new healthcare reform. Currently, the Chinese market is the largest emerging pharmaceutical market in the world. According to the forecast of IMS, the Chinese market will achieve a higher growth rate as compared with other markets and will become the second largest market following the United States by 2020. By that time, the volume of the Chinese market will amount to US$109.5 billion and the market share will increase to 7.5% from the existing level of 3%. The rapid expansion of pharmaceutical market in China is mainly attributable to sustainable, rapid and steady growth of its economy and the increase in domestic consumption level. Moreover, the government has been actively carrying out the healthcare reform and has been investing more resources in public medical services year by year. In addition, the accelerating aging problem and urbanization have resulted in an increasing demand for domestic medical and healthcare services. The Twelfth Five-Year Plan (2011–2015) also encourages the innovation and domestic demand for pharmaceutical industry. Through adjusting the structure of the pharmaceutical industry and implementing the new Good Manufacturing Practice (“GMP”) and pharmacopoeia, the leading enterprises will further drive the growth in this industry.

During the Reporting Period, the healthcare reform and its related measures have been implemented as planned. The total budgeted government investments for the period 2009 to 2011 in healthcare reform has been increased from RMB850 billion to RMB1,134.2 billion representing an increase of RMB284.2 billion from the original budget. The Urban Resident Basic Medical Insurance and the coverage of the New Corporative Medical Scheme (“NCMS”) will be greatly expanded. The government has increased its annual medical insurance subsidy for NCMS and urban residents to RMB200 per person and has further expanded the coverage of basic pharmaceutical allowance. The further expansion of the coverage of basic medicine allowance demonstrates the government’s commitment to implement the healthcare reform.

With respect to the pharmaceutical distribution industry, the government also published in 2010 a “The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015 (Consultation Draft)”. The outline promotes the concentration of domestic pharmaceutical distribution industry, structural adjustment of the industry, and encourages mergers and reorganization of the pharmaceutical distribution enterprises.

It is believed that national large-scale pharmaceutical groups will benefit from government policies, gaining more room for development. Major players in the pharmaceutical industry of China may expand their market shares through mergers and acquisitions. Based on the new market structure within the industry through consolidation, coupled with the increase in medical spending per capita, the scale of sales of large-scale pharmaceutical distribution enterprises is expected to steadily increase in the future.

Business Review

As of 31 December 2010, the Group was well positioned to take advantages of the healthcare reform and the development of the pharmaceutical industry in China in maintaining and strengthening its leading positions as a medicine and healthcare product distributor and pharmaceutical supply chain service provider, and has operations in the following business segments:

- ***Pharmaceutical distribution:*** The Group provides pharmaceutical supply chain management services for the distribution of domestic and imported prescribed medicines and over-the-counter medicines from manufacturers and suppliers to hospitals, other medical institutions, retail drug stores and other customers. During the Reporting Period, the Group operated an extensive distribution network with 39 distribution centres covering 29 provinces, municipalities and autonomous regions in China. In 2010, the Group has expanded its business in provinces such as Jilin, Jiangxi, Guizhou, Gansu, Ningxia and Chongqing, etc., in order to provide products and services to customers in a timely and cost-efficient manner. The Group's direct customers included approximately 56.76% of all hospitals in China, (including 85.40% of the class-three hospitals which are the largest and most highly-ranked hospitals), and over 77,087 other customers, such as 3,692 pharmaceutical distributors, 37,246 retail pharmacies and 36,149 other healthcare institutions. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for 93.46% of the total revenue.

- ***Retail pharmacy:*** The Group has a network of retail drug stores that are either directly operated by the Group or through franchises in major cities throughout China. Its retail drug stores operations accounted for 2.45% of its total revenue during the Reporting Period. In 2010, the number of additional retail drug stores was 447, among which 104 stores were newly found by the Group and 343 were acquired through mergers and acquisitions. At the end of 2010, the number of retail stores was 1,394, representing an increase of 47% as compared with last year. The Company successfully implemented the ERP system into its retail business during the Reporting Period. The system has promoted the integration of the financial, operational, human resources and procurement systems within the Group.

- ***Other business operations:*** The Group's other business operations are the production and sale of pharmaceutical products, chemical reagents, laboratory supplies and medical equipment. Its other business operations accounted for 4.09% of its total revenue during the Reporting Period.

Review on Mergers, Acquisitions and Restructuring

During the Reporting Period, the Group has taken advantages of favourable governmental policies and moved towards its goal of achieving national coverage in the pharmaceutical distribution market, by adopting strategic plans to boost up both its organic and external growth, integrating the effects of policies and capital investments.

As of the date of this announcement, the distribution network of the Group expanded to 29 provinces, with the addition of provincial companies in Xinjiang, Fujian, Guizhou, Heilongjiang, Gansu, Chongqing, Hebei, Jiangxi, Inner Mongolia and Jilin.

As of the date of this announcement, pharmaceutical distribution network of the Group covered 133 cities (including municipalities, provincial capitals and other prefecture-level cities) in China, representing 40% of the 333 cities (at or above prefecture-level) in China.

From 1 January 2010 to the date of this announcement, the Group has acquired Le Ren Tang Pharmaceutical Group Co., Ltd., Beijing Tianxingpuxin Bio-med Co., Ltd., Changzhou Yatai Wuzhou Pharmacetical Co., Ltd., Xinjiang New & Special National Pharmaceutical Co., Ltd., Wenzhou Biomedicin-Appliances Supplies Co., Ltd. and Foshan City Nanhai Pharmaceutical Group Co., Ltd., all of which are ranked among the "Top 100 Pharmaceutical Distribution Enterprises of 2009" selected by China Association of Pharmaceutical Commerce (the "Top 100 List"). The Group has also acquired several leading players in their respective regional markets. The results of some of the companies acquired are included in the consolidated statements of the Group in 2010 and they contributed sales revenue of approximately RMB14,549 million and net profit attributable to equity holders of RMB253 million to the Group.

The distribution networks of prefecture-level cities were actively developed relying on the regional strength and excellent resources of the provincial branch companies. The plan for expanding the coverage of the distribution networks to 39 prefecture-level cities was completed in the year 2010. The Group is accelerating its implementation of the integration plan with respect to strategic coverage of pharmaceutical distribution network across China.

Since 1 January 2010 to the date of this announcement, the Group has expanded its national distribution network in the following major regional markets. Through such expansion, the Group has further consolidated its unshakable leading position in the national market. The Group's extensive national network has shown incomparable significant synergy effect.

- ***Northeast China***

  The Group achieved a leading position in the region by establishing Sinopharm Holding Merro (Dalian) Co., Ltd. in Liaoning, acquiring Heilongjiang Longwei Tongxin Pharmaceutical Co., Ltd., whose name has been changed to Sinopharm Holding Heilongjiang Co., Ltd. in Heilongjiang, and acquiring Jilin Longtai Pharmaceutcial Co., Ltd., whose name has been changed to Sinopharm Holding Jilin Co., Ltd in Jilin.

- ***North China***

In Hebei, the Group has acquired the distribution and chain stores businesses of Le Ren Tang Pharmaceutical Group Co., Ltd., which ranked 17th in the Top 100 List. Through the cooperation, the sales of medicine of the Group in Hebei will increase to RMB6 billion and the Group will be in a leading position in that region.

In Beijing, the Group has acquired Beijing Tianxingpuxin Bio-med Co., Ltd., a company mainly engaged in the distribution of bio-products and ranked 44th in the Top 100 List. The sales of Beijing Tianxingpuxin Bio-med Co., Ltd. for 2010 represented more than 51% of the market shares of bio-products distribution in Beijing. As of 31 December 2010, the business scale of the Group ranked 1st in Beijing.

In Inner Mongolia, the Group has established Sinophram Group Inner-Mongolia Co., Ltd. to operate a provincial distribution network. Through integration of local resources, Sinophram Group Inner-Mongolia Co., Ltd. has become the leading distributor in Inner Mongolia.

In Shanxi, the Group expanded its prefecture-level network into Changzhi and Luliang and has become one of the leading players in that province. The expansion laid a solid foundation for the future development of the Group in that area.

- ***East China***

In Shanghai, the Group has acquired Shanghai Likang Medicine Co., Ltd., Shanghai Huyong Medicine Co., Ltd., Shanghai Linyun Pharmaceutical Co., Ltd. and Shanghai Peibaokang Pharmaceutical Co., Ltd., and steadily ranked 2nd in Shanghai in terms of market share. The Group further narrowed the gap between itself and other regional leaders by streamlining its operation and fully utilizing the synergy of its national distribution network.

In Jiangsu, the Group completed the acquisition of Changzhou Yatai Wuzhou Pharmaceutical Co., Ltd., a company ranked 25th in the Top 100 List, and established a prefecture-level distribution network in Jiangsu covering major cities. Through other mergers and acquisitions, the Group has expanded its network in core major cities of Jiangsu, namely Nanjing, Changzhou, Wuxi, Xuzhou, Yancheng, Huai'an and Suzhou. The pharmaceutical distribution network of the Group covers more than half of Jiangsu and the Group has a business scale comparable to that of the leading player in the province.

In Zhejiang, the Group has completed the acquisition of Wenzhou Biomedicin-Appliances Supplies Co., Ltd., a company ranked 49th in the Top 100 List, Zhejiang Wenling Pharmaceutcial Co., Ltd., and Zhejiang Jinyun Pharmaceutcial Co., Ltd. After establishing distribution points in Wenzhou and Zhoushan, the Group has a business scale and market share gradually approaching to that of the regional leader.

In Anhui, the Group has established distribution points in Anqing and Bengbu and laid a solid foundation to compete with other players.

In Fujian, the Group has established a provincial network in Xiamen and has established Sinopharm Group Fujian Co., Ltd. The Group has also established distribution network in major cities such as Xiamen, Putian, Sanming, Longyan, leveraging on its existing full coverage in Fuzhou. The Group has equipped itself with the potential to rank 1st in the province.

In Shandong, the Group has established a prefecture-level network in Yantai, Jinan and Linyi and has gained competitive edges.

- ***Central China***

In Henan, the Group has established a prefecture-level network in Anyang, Nanyang, Kaifeng, Puyang and Jiaozuo, and has gained competitive edges in terms of business scale.

In Hubei, the Group has established a prefecture-level network in Wuhan, Yichang, Huangshi, Jinzhou, Shiyan and Xiangyang and is the second largest in terms of business scale.

In Hunan, the Group has established a prefecture-level network in Chenzhou and Yueyang, and its business had gained competitive edges in the area.

- ***Northwest China***

In Xinjiang, the Group acquired China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. and acquired a controlling interest in Xinjiang New & Special National Pharmaceutical Co., Ltd., which ranked 23rd in the Top 100 List. The company has the largest market share in the province with an annual turnover of over RMB4 billion in the year 2010.

In Gansu, the Group established Sinopharm Holding Gansu Co., Ltd..

- ***South China***

In Guangdong, the Group completed the acquisition of Foshan City Nanhai Pharmaceutical Group Co., Ltd., a company ranked 63th in the Top 100 List. It has also established a prefecture-level network in Meizhou and Huizhou. Currently the Group's overall business scale is on a par with the regional leader.

In Guangxi, the Group established a prefecture-level network in Wuzhou. The Group ranked 2nd in the market in terms of business scale.

- ***Southwest China***

In Yunnan, Guizhou, Sichuan and Chongqing, the Group has accomplished the establishment of provincial network.

Business Integration

The management of the Group adopts different management systems for its existing and new subsidiaries.

For existing subsidiaries, the Group adopts a management model focussing on the improvement of operation and management of risks. It establishes a grading system to classify the subsidiaries, and resources will be deployed in accordance with the grading system. At the same time, the Group has developed new distribution channels and marketing system, in order to further improve its quality of services, perfect its resources allocation system and utilize its synergy effects.

For new subsidiaries, the senior management of the Group sets up special working teams to devise appropriate risk management systems to enable these subsidiaries to integrate into the Group.

International Cooperation

In 2010, under our international cooperation strategy of "Venturing to the outside market, bringing back investment opportunities", the Group cooperated with overseas companies, including the incorporation of Yujia Medical Service Co., Ltd., a joint venture with Taiwan Excelsior Healthcare Group. The Group also launched various cooperation projects with internationally well-known pharmaceutical companies.

Financial Summary

The financial summary sets out below is extracted from the audited financial statements of the Company and its subsidiaries prepared in accordance with the HKFRS during the Reporting Period:

During the Reporting Period, the Group recorded turnover of RMB69,234 million, representing an increase of RMB16,566 million, or 31.45%, as compared with the corresponding period of last year. Out of which, revenue from the distribution business was RMB65,363 million, representing an increase of RMB15,810 million, or 31.91%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,830 million, representing an increase of RMB386 million, or 26.73%, as compared with the corresponding period of last year. Profit attributable to equity holders was RMB1,209 million, representing an increase of RMB242 million, or 25.03%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.53, representing an increase of 23.26% as compared with the unrestated earnings per share of corresponding period of last year.

Revenue

The Group recorded revenue of RMB69,234 million during the Reporting Period, representing an increase of 31.45%, or RMB16,566 million, as compared with RMB52,668 million for the twelve months ended 31 December 2009. The increase in revenue of the Group was primarily due to substantial increase in revenue from the Group's pharmaceutical distribution, retail pharmacy and other operations. The revenue and market share of the Group grew more rapidly as compared with the overall development of pharmaceutical market in China and was at a level higher than the average industrial growth rate.

- ***Pharmaceutical Distribution***: The revenue from pharmaceutical distribution of the Group was RMB65,363 million during the Reporting Period, representing an increase of 31.91% as compared with RMB49,553 million for the twelve months ended 31 December 2009, which accounted for 93.46% of the total revenue of the Group. The increase in revenue was primarily due to (1) the increase of the varieties and quantities of products sold by the existing customers of the Group, and in the number of new customers; (2) the expansion of the coverage of its distribution network by acquiring leading enterprises with extensive national or regional networks and by establishing new companies and businesses. The combined financial statements of 2010 show that the additional sales revenue of the Group contributed by such new companies amounted to RMB14.3 billion, which strengthened our advantageous position in first tier cities and expanded our market share in second and third tier cities; and (3) the expansion of our distribution network in clinics and other medical institutions, which also drove the growth in revenue.

- ***Retail Pharmacy***: The revenue from retail pharmacy of the Group was RMB1,715 million during the Reporting Period, representing an increase of 23.74% as compared with RMB1,386 million for the twelve months ended 31 December 2009. The increase was primarily due to the growth driven by the acquisition and establishment of new retail outlets and retail companies during the Reporting Period.

- ***Other Business Operations***: The revenue from other business operations of the Group was RMB2,860 million during the Reporting Period, representing an increase of 37.04% as compared with RMB2,087 million for the twelve months ended 31 December 2009. The increase was primarily due to the growth of pharmaceutical manufacturing business, chemical reagent business, laboratory supplies business and medical equipment business.

Note: the inter-segment revenue of above three segments is amounting to RMB704 million during the Reporting Period.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB63,398 million, representing an increase of 31.36% as compared with RMB48,261 million for the twelve months ended 31 December 2009. The increase was primarily due to an increase in the costs of purchasing merchandise following the increase in the revenue from sales, and the rate of increase in cost of sales was lower than that of sales for the same period.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 32.43% from RMB4,407 million for the year ended 31 December 2009 to RMB5,836 million during the Reporting Period. The gross profit margin of the Group before retrospective adjustment for the twelve months ended 31 December 2009 was 8.04%. The gross profit margin after retrospective adjustment for the twelve months ended 31 December 2009 was 8.37%, and the gross profit margin for the twelve months ended 31 December 2010 was 8.43%. The increase in gross profit margin of the Group was due to (1) the acquisition of a series of pharmaceutical distribution business with higher gross margins during the year; (2) the effect of integration of mergers and acquisitions; and (3) the relatively rapid growth of businesses with higher gross profit margins. The Group enjoys one of the highest gross profit margin in the industry.

Other Income

During the Reporting Period, other income of the Group was RMB77 million, representing an increase of 42.59% as compared with RMB54 million for the twelve months ended 31 December 2009. The increase was primarily due to an increase in government grants received from the central government and local governments.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group was RMB1,960 million, representing an increase of 39.60% as compared with RMB1,404 million for the twelve months ended 31 December 2009. As disclosed in the interim report of the Group for 2010, the distribution and selling expenses for the six months ended 30 June 2010 increased by 52.78% as compared with the six months ended 30 June 2009. During the Reporting Period, the distribution and selling expense of the Group accounted for 2.83% of total revenue, representing an increase of 0.16% as compared with 2.67% for the twelve months ended 31 December 2009. The increase was primarily due to the increase in operation scale, business development and expansion in distribution network of the Group by establishing and acquiring companies and businesses, as well as an expansion in the hospitals direct sales business. With the effect of integration of mergers and acquisitions in the future, the increase in distribution and selling expenses will be effectively managed.

General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group was RMB1,544 million, representing an increase of 32.42% as compared with RMB1,166 million for the twelve months ended 31 December 2009. The proportion of the Group's general and administrative expenses to the total revenue of the Group increased from 2.21% for the twelve months ended 31 December 2009 to 2.23% for the corresponding period in 2010. The increase was primarily due to an increase in scale of the Group and substantial expenses in mergers and acquisitions during the Reporting Period.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB2,409 million, representing an increase of 27.33% from RMB1,892 million for the twelve months ended 31 December 2009. Our operating profit margin were 3.59% and 3.48% for the twelve months ended 31 December 2009 and 2010 respectively.

Other Gains — Net

The other gains of the Group less other losses decreased by 5.00% from RMB180 million for the twelve months ended 31 December 2009 to RMB171 million during the Reporting Period. The Group recorded a gain of RMB136 million in 2009 from the disposal of equity interests in subsidiaries. Such gains were not available in the Reporting Period.

Finance Costs — Net

During the Reporting Period, the finance costs of the Group was RMB272 million, representing an increase of 17.75% as compared with RMB231 million for the twelve months ended 31 December 2009. The increase was primarily due to the expansion in business scale and increase in interest rate during the Reporting Period.

Share of Results from Associates

During the Reporting Period, the Group's share of results from associates was RMB90 million, representing an increase of 32.35% as compared with RMB68 million for the twelve months ended 31 December 2009.

Income Tax Expenses

The Group's income tax expenses increased by 22.15%, from RMB465 million for the twelve months ended 31 December 2009 to RMB568 million during the Reporting Period. The increase was primarily due to the corresponding increase in income tax following the growth in profit. The Company's effective income tax rate was 23.69% for the twelve months ended 31 December 2010, which is similar to that of 24.36% for the twelve months ended 31 December 2009.

Annual Profits

The profit for the year of the Group was RMB1,830 million, representing an increase of 26.73% from RMB1,444 million for the twelve months ended 31 December 2009. The increase in annual profits was primarily due to the expansion in the distribution network and the rapid business growth.

Excluding the after tax gain of RMB102 million due to disposal of equity interests in subsidiaries in the corresponding period of 2009, the annual profit of the Group increased by 36.36% as compared with the adjusted annual profit of RMB1,342 million for the twelve months ended 31 December 2009.

Profit Attributable to Equity Holders of the Company

As a result of the above-mentioned factors, profit or net profit attributable to equity holders of the Group increased by 25.03%, or RMB242 million, from RMB967 million for the twelve months ended 31 December 2009 to RMB1,209 million during the Reporting Period. The Group's net profit margins during the Reporting Period and that of the corresponding period of 2009 were at a similar level, which were 1.75% and 1.84% respectively.

Minority Interests

Minority interests during the Reporting Period was RMB622 million, representing an increase of 30.40% from RMB477 million for the twelve months ended 31 December 2009.

Liquidity and Capital Resources

Working capital

The directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within the next 12 months from the date of this announcement.

During the Reporting Period, the Group had commercial banking facilities of RMB19,843 million, of which approximately RMB8,168 million were not yet utilized. Cash and cash equivalents of RMB7,475 million were primarily comprised of cash, bank deposits and income generated from operating activities.

Cash flow

The cash of the Group is primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expanding the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for each year ended 31 December 2009 and 2010:

	2010	2009
	RMB million	*RMB million*
Net cash generated from operating activities	**1,202**	1,118
Net cash (used in) investing activities	**(1,831)**	(3,312)
Net cash generated from financing activities	**536**	7,698
Net (decrease)/increase in cash and cash equivalents	**(93)**	5,504
Cash and cash equivalents at the beginning of year	**7,568**	2,064
Cash and cash equivalents at the end of year	**7,475**	7,568

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,202 million, representing an increase of RMB84 million from RMB1,118 million for the twelve months ended 31 December 2009. The increase was primarily due to the continued growth of the Group's operating activities.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB1,831 million, representing a decrease of RMB1,481 million as compared with RMB3,312 million for the twelve months ended 31 December 2009. The decrease was primarily due to the redemption on maturity of short-term financial products purchased in 2009 for the purpose of hedging exchange risks.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB536 million, representing a decrease of RMB7,162 million as compared with RMB7,698 million for the twelve months ended 31 December 2009. The decrease was primarily due to the lack of fund raising activity in 2010 as compared with the corresponding period in 2009.

Capital Expenditure

The Group's capital expenditures primarily include acquisitions and purchases of fixed assets. The Group's capital expenditures amounted to RMB1,156 million and RMB2,700 million for the year ended 31 December 2009 and during the Reporting Period respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to expand, it may incur additional capital expenditure. The Group's ability to obtain additional funding for its future capital expenditure is subject to a variety of uncertainties, including its future operational results, financial condition and cash flows, economic, political and other conditions in China and Hong Kong, and the Chinese Government's policies relating to foreign currency borrowings.

Capital Structure

Indebtedness

As of 31 December 2010, the Group had aggregate banking facilities of RMB19,843 million, of which RMB8,168 million were not utilized and are available to be drawn down. These banking facilities primarily comprised short-term working capital loans. Among the Group's total borrowings as of 31 December 2010, RMB3,344 million will be due within one year and RMB91 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

The Group's gearing ratio was 64.97% as of 31 December 2010 (31 December 2009: 57.05%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2010. The gearing ratio is comparable with the market average. The increase in gearing ratio at the end of the Reporting Period is mainly due to further development of the Company's business, and the lack of fund raising activity in 2010 as compared with the corresponding period in 2009.

Foreign exchange risks

The uncertainties of foreign currency exchange rate will not result in significant foreign currency exchange risks to the Group.

Equity Interest attributable to shareholders of the Group

The equity interest attributable to the shareholders of the Company was RMB11,711 million as of 31 December 2010, representing a slight decrease of 1.31% as compared with RMB11,867 million (restated) as of 31 December 2009. This was primarily due to an accounting adjustment made in the year 2010 as a result of business combination under common control.

Pledge of assets

As of 31 December 2010, part of the Group's bank loans was secured by properties with book value of RMB13 million, accounts receivables with book value of RMB615 million and notes receivable with book value of RMB110 million. Bank deposits with book value of RMB169 million were used as notes guarantees.

Contingent Liabilities, Legal and Potential Proceedings

As of 31 December 2010, the Group neither had any guarantees or other material or contingent liabilities, nor had any legal proceedings or potential proceedings.

Major Acquisitions and Disposals

During the Reporting Period, the total expenditures in relation to acquisition activities of the Group amounted to approximately RMB2,321 million, including the following major acquisitions:

During the Reporting Period, the Group carried out certain acquisitions, including: (1) the acquisition of a 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd., the business of which covers the whole Xinjiang, at a consideration of approximately RMB736 million; (2) the acquisition of the medicine distribution business of China National Pharmaceutical Foreign Trade Corporation, the business of which is based in Beijing, at a consideration of approximately RMB275 million; (3) the acquisition of the medicine distribution business of China National Pharmaceutical Industry Corporation Limited, the business of which is based in Beijing, at a consideration of approximately RMB222 million; (4) the acquisition of a 51% equity interest in Hubei Yibao International Pharmaceutical Co., Ltd., the business of which is based in Hubei, at a consideration of approximately RMB20 million; (5) the acquisition of a 36% equity interest in Xinjiang New & Special National Pharmaceutical Co., Ltd., at a consideration of approximately RMB416 million. All these acquisitions were made by the Group from connected persons and all have been completed.

The consideration of the above acquisitions were determined after arms-length negotiation and conformed to the fair market value fixed by independent valuer or the audited assets value of the assets acquired.

During the Reporting Period, the Group had no material disposal.

Going concern

Based on the current financial forecast and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

Human Resources

As of 31 December 2010, the Group had 24,117 employees. In order to be in line with the substantial developmental trend, meet the development needs and support the implementation of the 2010 overall objectives of the Company, the Group has adopted an idea of professional management, reorganizing current human resources, creating management model, optimizing the management mechanism, and actively promoting the organizational reform. The Group has increased its speed of nurturing and recruiting talents. It has implemented a strict selection process for employees hiring and established a number of initiatives to enhance their productivity. The Group has conducted periodic performance reviews for its employees, and has adjusted their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees of various positions.

Future Plan

The Group's objectives are to consolidate its position as the leading distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China. It will continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The audit committee of the Group consists of six directors, namely, Mr. Xie Rong (Chairman), Mr. Chen Wenhao, Mr. Wang Fanghua, Mr. Fan Banghan, Mr. Deng Jindong and Mr. Zhou Bajun. The committee is mainly responsible for inspecting, reviewing and overseeing the financial data and financial reporting procedures of the Group. The audit committee of the Group has reviewed the annual results of 2010 of the Group.

Scope of work of PricewaterhouseCoopers

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2010. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CG CODE") SET OUT IN APPENDIX 14 TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES")

During the Reporting Period, the Group has complied with the code provisions set out in the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE") SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Group has adopted the Model Code and after making specific enquires with the directors and supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 2 May 2011 to Monday, 30 May 2011 (both dates inclusive) during which period no share transfers will be registered. To qualify for the proposed dividend and to attend the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 29 April 2011.

DISCLOSURE OF INFORMATION

The annual report of the Group for the Reporting Period will be duly dispatched to shareholders and published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sinopharmgroup.com.cn).

By order of the Board
Sinopharm Group Co. Ltd.
She Lulin
Chairman

Shanghai, the People's Republic of China
23 March 2011

As at the date of this announcement, the executive director of the Company is Mr. Wei Yulin; the non- executive directors of the Company are Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Wenhao, Mr. Zhou Bin, Mr. Deng Jindong, Mr. Chen Qiyu, Mr. Fan Banghan, Mr. Liu Hailiang; and the independent non-executive directors of the Company are Mr. Wang Fanghua, Mr. Xie Rong, Mr. Tao Wuping and Mr. Zhou Bajun.

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd."*